ANNUAL | REPORT | 2000

SAHF SASKATCHEWAN AUTO FUND

41

SGI VISION:

As a Saskatchewan based insurance company we will set the industry standard for being highly valued by our customers

SGI VALUES:

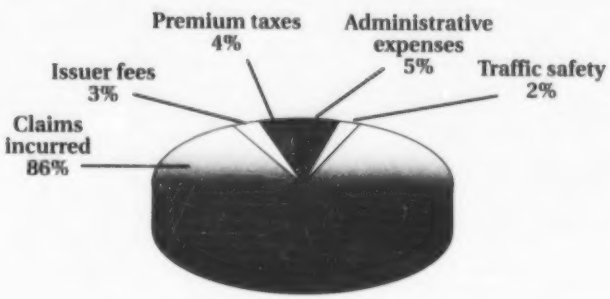
Integrity: Conducting ourselves with honesty, trust and fairness

Caring: Acting with empathy, courtesy and respect

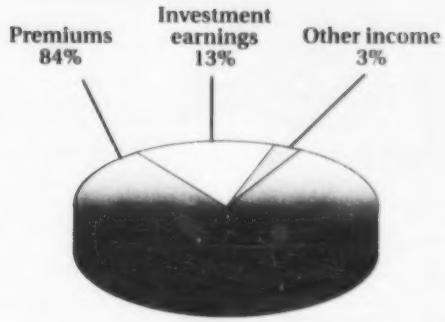
Innovation: Implementing creative solutions to achieve our vision

OPERATIONAL HIGHLIGHTS

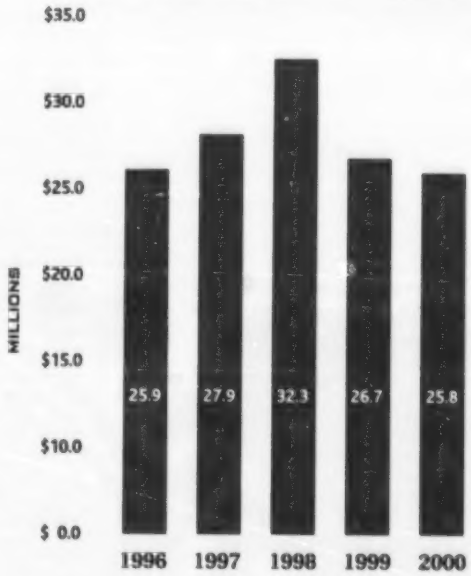
TOTAL CLAIMS AND EXPENSES 2000



TOTAL REVENUE 2000



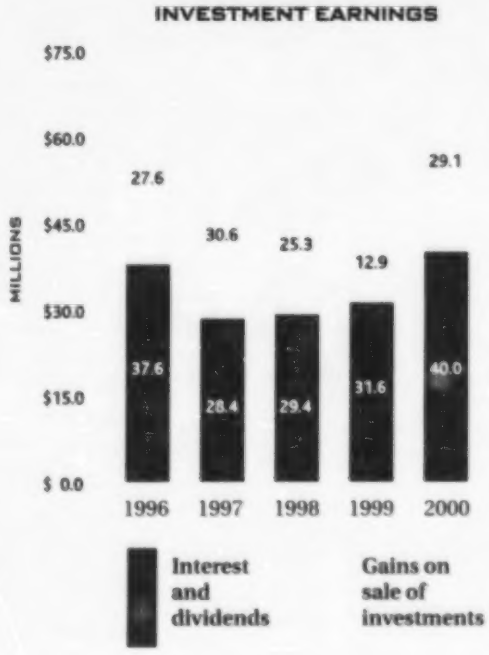
ADMINISTRATIVE EXPENSES



Claims incurred represent almost 90% of the total costs of the Auto Fund. In 2000 claim costs were $409.9 million, a $25.6 million (6.6%) increase over 1999. Contributing to this increase was damage claims which grew by $21.5 million, mainly due to a 9% increase in the volume of claims. As well, injury claim costs for out-of-province claims, which are often paid through a tort system where costs tend to be higher, increased by 18.1%.

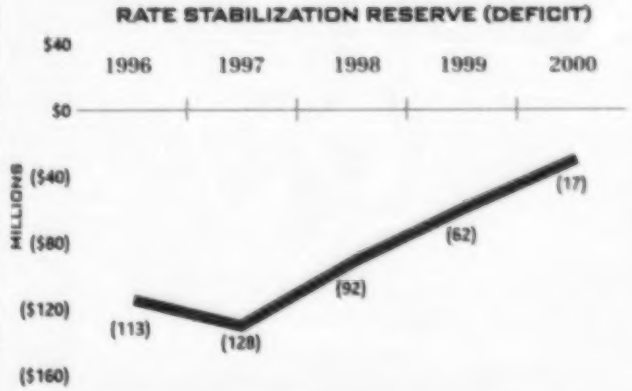
Premiums written increased to $446.7 million in 2000, from $427.6 million in 1999. This increase is a result of a newer vehicle population, which costs more to insure, and the 2% average rate increase.

Administration costs remain among the lowest in the Canadian insurance industry. Administrative expenses, which account for just over 5% of total expenses, decreased by $905,000 in 2000 or 3.4% over 1999.



Investment earnings in 2000 were the highest ever recorded in the Auto Fund. The increase is a result of a significant increase in gains on the sale of investments, with the majority of the gains from equity sales. Investment earnings were $69.1 million in 2000. This is a 55% increase over 1999 earnings of $44.5 million.

The Auto Fund remains on track to eliminate its deficit. The Auto Fund recorded a surplus in 2000, reducing the deficit in the Rate Stabilization Reserve (RSR) to $16.9 million. The surplus in 2000 was $45.3 million, $21.1 million higher than projected. This is primarily a result of excellent investment earnings. The Auto Fund also implemented a 2% average rate increase in 2000. The rate increase was the third and final of a three-year rate program.



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BOARD of DIRECTORS

back row, left to right:
P. JAMES MILLS
Insurance broker,
Mayor of Elrose, Sask.

JOAN D. BELLEGARDE
Executive Director, File Hills
Qu'Appelle Tribal Council,
Fort Qu'Appelle, Sask.

DANA C. STUTSKY
Insurance adjuster,
Saskatoon, Sask.

J. WALTER BARDUA
Vice-Chair, retired insurance
professional, Nanaimo, B.C.

NANCY E. HOPKINS
Lawyer, Saskatoon, Sask.

DALE BLOOM
Corporate Secretary, Crown
Investments Corporation,
Regina, Sask.

JOAN F. D. BALDWIN
Doctor, Regina, Sask.

front row, seated:
DONALD W. CODY
Chair, Mayor of
Prince Albert, Sask.

LARRY FOGG
President and CEO of SGI,
Regina, Sask.

missing: WILLIAM J. A. HEIDT
Business owner, Kelowna, B.C.

SENIOR MANAGEMENT

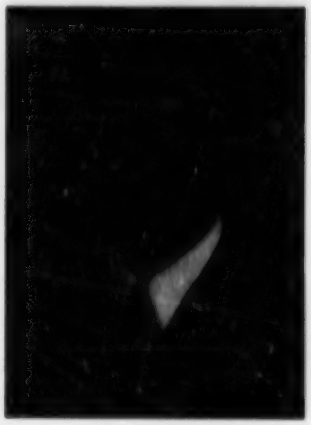
Vice Presidents

Margaret Anderson, Systems
Cheryl Barber, Human Resources
Earl Cameron, Claims
Alan Cockman, Auto Fund
John Dobie, Finance and Administration
Randy Heise, Underwriting

Assistant Vice Presidents

Doug Campbell, Claims
Anna Lapierre, Auto Fund
Ken Lerner, Claims
Bob Lundy, Claims
Maureen MacCuish, Communications
Gerry Marsden, Underwriting
Bernadette McIntyre, Auto Fund
Arun Patel, Salvage
Jim Roberts, Underwriting
Lorne Whippler, Underwriting
Sherry Wolf, Claims

LETTER of TRANSMITTAL



Regina, Saskatchewan
March 2001

To Her Honour,
The Honourable Lynda Haverstock,
Lieutenant Governor of the
Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2000, including the financial statements in the form required by the Treasury Board and in accordance with the Automobile Accident Insurance Act.
I have the honour to be, Madam,

Your obedient Servant,

Maynard Sonntag

Honourable Maynard Sonntag,
Minister Responsible for Crown Investments Corporation

PRESIDENT'S MESSAGE

Introduction

By 1944, there were 181,000 drivers in Saskatchewan. Less than 10% of them carried public liability insurance, which guarantees the recovery of damages by a third person. The provincial government recognized this serious risk to the people of Saskatchewan and in 1945 appointed a committee to study the problem of compensation for auto accident victims.

The committee began to consider a compulsory liability plan. This type of plan was fairly new in North America and no other Canadian province had such a program. On April 1, 1946, the *Automobile Accident Insurance Act,* or AAIA, became law, which was in essence the birth of the Auto Fund as we know it.

Since the AAIA was drafted, coverage has been amended several times to meet the unique and diverse requirements of Saskatchewan's residents. Today, the Auto Fund continues to evolve, embracing change to maintain and improve its service to our customers. In 2000 alone, numerous traffic safety and customer service initiatives were launched, while we continued to meet the goal of providing among the lowest auto insurance rates in Canada.

Year in Review

One of the most serious issues currently facing the Saskatchewan Auto Fund is a deficit in the Auto Fund's Rate Stabilization Reserve (RSR). However, this deficit has decreased dramatically over the past few years and strong financial results in 2000 have kept us on track to reach our goal of returning the RSR to a surplus position.

To remain competitive, it was realized that this goal must be combined with a commitment to low auto insurance rates and top-notch customer service. Consequently, SGI introduced many initiatives in the past year aimed at serving our customers better. These include improvements to our telephone service and extensive customer service training for our employees.

Along with customer service, traffic safety remains one of SGI's top priorities and as always, 2000 was a very busy year in this area. Numerous legislative changes were made to the *Highway Traffic Act* and campaigns such as "Arrive Alive" and "Santa's Little Helpers" were launched with the hope of preventing accidents and saving lives on Saskatchewan's roads.

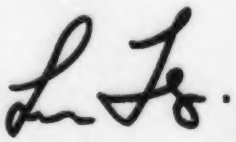
The Personal Injury Protection Plan (PIPP) was reviewed by an independent panel in 2000. We welcomed the opportunity to present the panel with our list of 44 recommendations for improvements to the program.

When the report was released in December 2000, we were pleased that the panel found PIPP to be fundamentally sound, and that it made many recommendations to improve the system. SGI looks forward in 2001 to implementing changes that improve Saskatchewan's auto injury benefits.

Conclusion

The new millennium has brought with it an era of change and increased competition. SGI has embraced this business environment and will do its best to provide the people of Saskatchewan with the quality, affordable auto insurance and related services they have come to expect.

Balancing these principles with the goal of returning the RSR to a surplus position will be one of SGI's most important tasks over the coming years. This will not be easy, but I am happy with the direction we are going and confident that we will reach this goal in 2002.



Larry Fogg
President

One of the greatest challenges facing the Auto Fund continues to be a deficit in the Rate Stabilization Reserve (RSR). To ensure the long-term stability of the Fund, the RSR must be returned to a surplus position. Strong financial results in 2000 helped take us another step forward in achieving this goal.

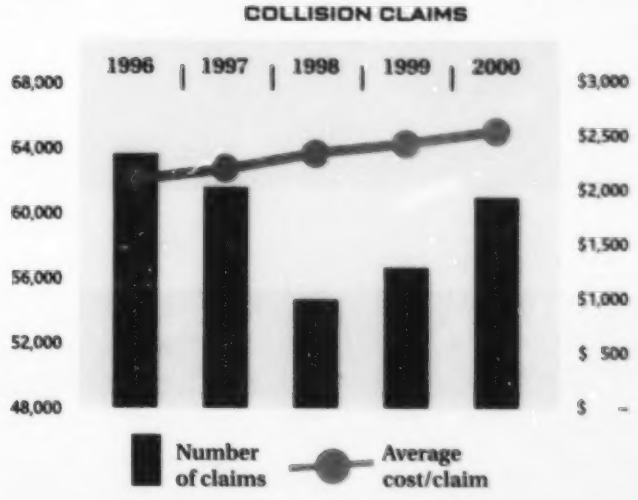
The Fund began 2000 with a $62.1 million deficit in the RSR. At the end of the year that number was reduced by $45.3 million to $16.9 million. A major factor in the $45.3 million surplus in 2000 was attributable to investment earnings which were the highest level ever recorded for the Auto Fund. A major factor in the increased investment earnings was gains realized on the sale of investments which were $22.5 million more than forecasted.

SGI requested a 2% increase in auto insurance rates for 2001, deemed necessary due to a remaining deficit in the RSR as well as yearly increases in claim costs. As well, the level of gains on the sale of investments realized in 2000 cannot be expected annually.

This request for a rate increase made SGI the first Crown corporation to appear before the permanent Saskatchewan Rate Review Panel. The panel however, recommended that only rate rebalancing was required.

Rate rebalancing—the assessment of insurance risk presented by each risk group and adjustment of rates accordingly—is supported by the Auto Fund's belief that each risk group must pay sufficient premium to sustain its own claims, thereby eliminating subsidization by other groups.

DANGEROUS WINTER DRIVING CONDITIONS IN NOVEMBER AND DECEMBER WERE PARTLY RESPONSIBLE FOR AN INCREASE IN CLAIM COSTS DURING 2000.



While it is important to reduce the RSR deficit and keep auto insurance rates affordable, SGI works hard to ensure those goals are not achieved at the expense of customer service. Over the past year, SGI introduced many initiatives aimed at serving our customers better.

Some initiatives, such as Dial-a-Claim operating six days a week, extended after-hours service and 24-hour emergency claim service, were implemented in 2000 and many other improvements will be officially launched in 2001.

The corporation also continued its ongoing effort to enhance and develop skills for highly valued customer service through Terri Knox, who began delivering her motivational sessions to SGI employees. By the end of 2000, over 90% of staff had participated in the program.

Our next step in customer service training is a more detailed seminar on specific ways to provide top-notch customer service. The sessions are being conducted by customer service authority and international speaker Jeff Mowatt. Jeff's presentations will be tailored specifically so that all SGI employees can better respond to the individual needs of each of our customers.

Feedback from our ongoing claims customer service surveys indicate we are headed in the right direction. The surveys, completed by 5,903 claims customers, indicate a 90% level of customer service satisfaction in 2000. We are proud of this result, but recognize there is always room for improvement.

ADJUSTER JENNIFER KRIEGER IS ONE OF MANY EMPLOYEES WORKING AT THE SGI CUSTOMER SERVICE CENTRE AFTER HOURS.

M121

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SGI is committed to developing innovative traffic safety programs aimed at preventing crashes. Fewer crashes mean fewer vehicle damage and injury claims. But more importantly, fewer crashes mean fewer lives are lost on Saskatchewan's roads.

In 2000, SGI continued its focus on five traffic safety priority areas: impaired driving, seat belt use, high-risk drivers, new drivers and high-risk intersections. Specific goals have been set in each of these priority areas with results displayed in the following chart.

TRAFFIC SAFETY PRIORITY AREA	SGI PROGRAMS	TARGETS	PROGRAM RESULTS TO DATE (2000)
Impaired Driving	Drinking and Driving Initiatives	20% reduction in the proportion of fatal accidents involving alcohol over 5 year period	15% reduction over 4 years
New Drivers	Probationary Driver's Program	10% reduction in number of crashes involving new drivers	1.3% reduction over 4 years
Seat Belt Use	Seat Belt Initiatives	Maintain Saskatchewan ranking among top 3 provinces	5th place in Canada – 90% seat belt use (1st place has 92.7% belt use)
High-Risk Drivers	Driver Improvement Program	Reduce at-fault accidents by 9 accidents per 100 drivers per year	Reduction of 72 accidents per 100 drivers in 2000
High-Risk Intersections	Intersection Improvement Program	Benefit to cost ratio of 2 to 1 within two years of intersection improvements	Improved intersections have recorded a ratio of 2 to 1 after two years

2000 LEGISLATIVE CHANGES

Numerous legislative changes and awareness campaigns were also launched to improve road safety and better serve our customers in 2000.

- **Emergency Vehicles** – To create a safer environment for emergency personnel, all highway drivers must slow down to 60 km/hr when passing emergency vehicles that have their lights flashing. These include city police and RCMP vehicles, fire trucks and ambulances.
- **Seat Belts** – The *Highway Traffic Act* will no longer provide for exemptions from wearing a seat belt for medical reasons.
- **Amber Lights** – In order to reduce confusion for other drivers, snowploughs, other snow removal vehicles and tow trucks are permitted to use their flashing amber lights only when actively removing snow or towing a vehicle, and not for general driving.
- **Funeral Processions** – The *Highway Traffic Act* was amended to clarify that all vehicles in a funeral procession must obey all rules of the road, however, vehicles can proceed through uncontrolled intersections if the traffic has yielded.

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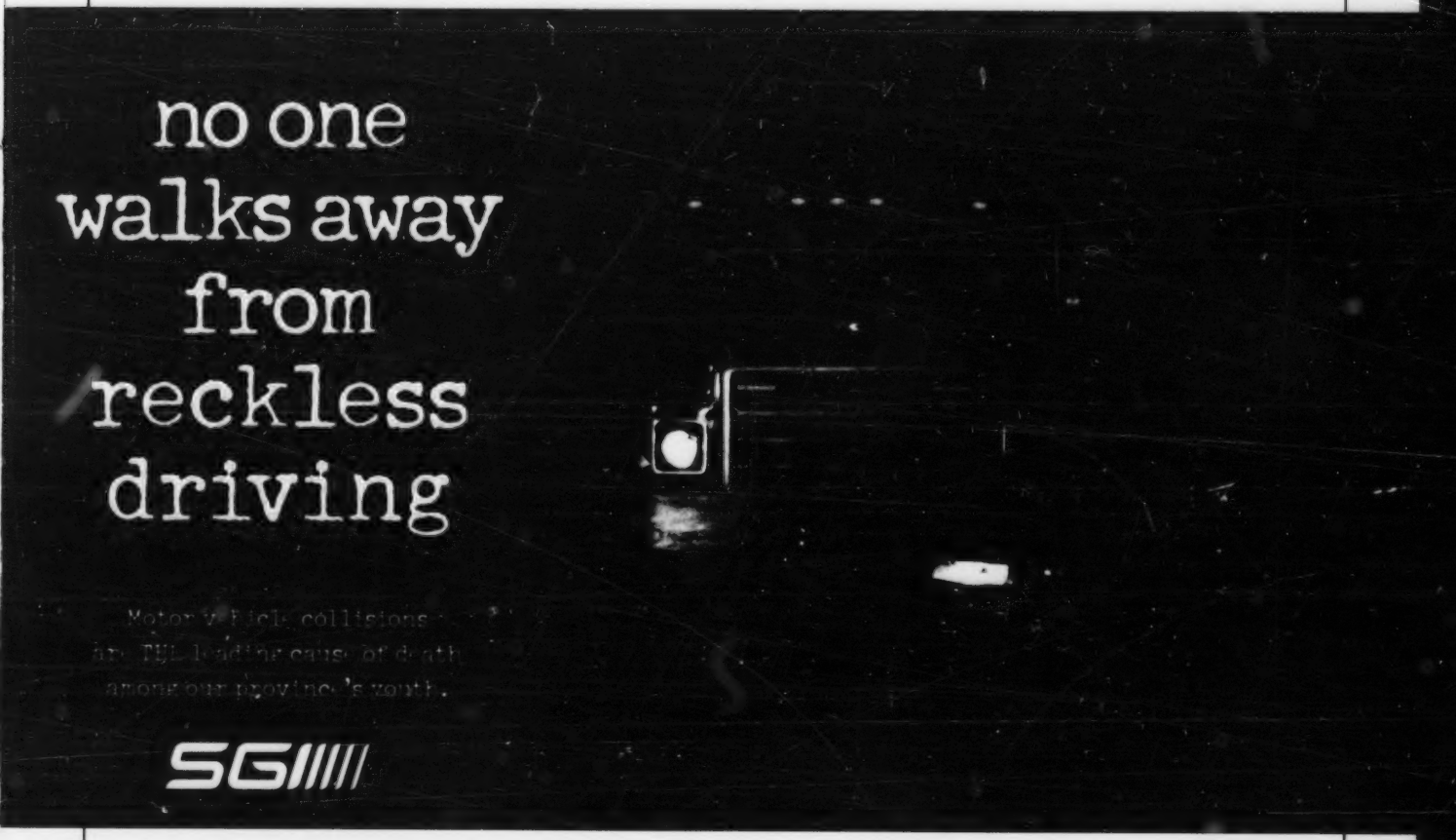


WILL YOU WALK AWAY?

"Will you walk away?" was a hard-hitting awareness campaign designed to make everyone, and especially young people, think about their driving behaviour. The multi-media campaign was launched in Spring 2000 to coincide with the increase in high-risk driving that typically occurs when the weather improves.

a corporate partnership SGI has established with the Saskatchewan Junior Hockey League (SJHL) and the Saskatchewan Hockey Association (SHA).

"Arrive Alive" promotes all of SGI's traffic safety messages at SJHL hockey games and local community rinks around the province. Those messages include the importance of using seat belts, taking care on the road in winter driving conditions, checking vehicle child restraints and staying sober behind the wheel.

With over 400,000 fans attending SJHL games, this message will reach a significant portion of the population and should help to reduce the number of collisions, injuries and deaths on Saskatchewan roads.

SANTA'S LITTLE HELPERS

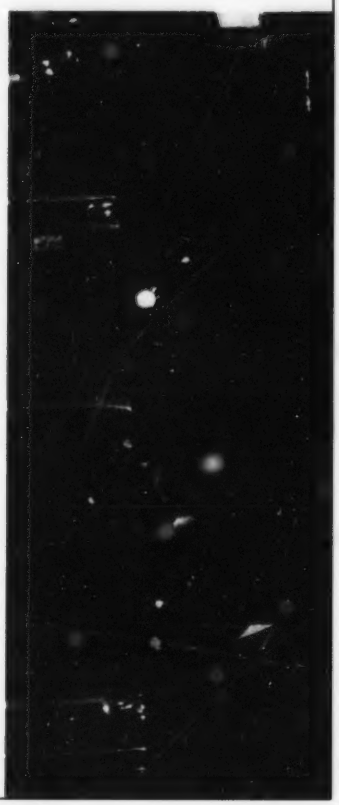
"Santa's Little Helpers" was an awareness campaign aimed at preventing drinking and driving during the holiday season. Billboards, television and radio ads were used depicting police officers as "Santa's Little Helpers."

The cooperative relationship that exists between SGI and law enforcement agencies was also enhanced as local police officers volunteered to act as "Santa's Little Helpers" in the campaign.

2000 was an extremely busy year at SGI with much work being done on projects that will take effect in 2001. These projects include:

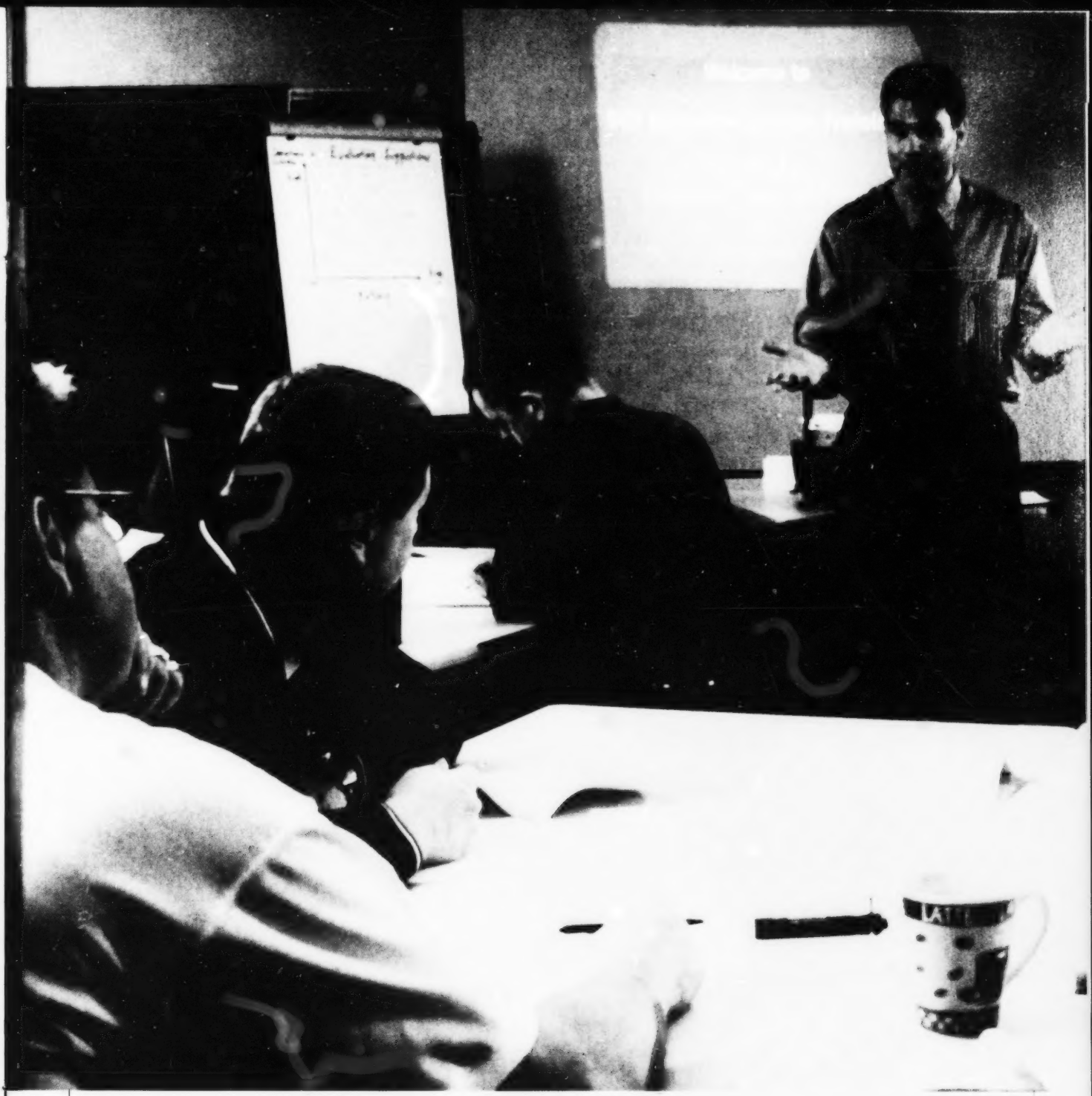
- Mandatory photo identification for Saskatchewan drivers.
- Zero Blood Alcohol Content for new drivers, which means that probationary drivers who consume any amount of alcohol before driving will face a roadside licence suspension.
- The introduction of an ignition interlock device, which prevents a car from being started until the driver has produced an alcohol-free breath sample.
- A study of the Medical Review Unit, which is designed to lower costs and make the system more efficient for drivers with medical restrictions on their licences.

Customer service improvements will also remain a top priority for SGI in 2001. Jeff Mowatt's customer service training seminars will continue in the new year and SGI will also begin to actively consult with the public to identify other key areas where program and service enhancements will be made.



EMBRACING CHANGE

SGI is looking forward to facing the challenges ahead and will continue to work hard providing top quality insurance at affordable prices to the people of Saskatchewan for many years to come.



INTERNATIONAL SPEAKER JEFF MOWATT DELIVERS A DETAILED SEMINAR TO SGI EMPLOYEES ON SPECIFIC WAYS TO PROVIDE TOP-NOTCH CUSTOMER SERVICE .

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INTRODUCTION

This report focuses on the financial position and operating results of the Saskatchewan Auto Fund (the Fund). The information in this section should be read in conjunction with the Fund's financial statements and accompanying notes.

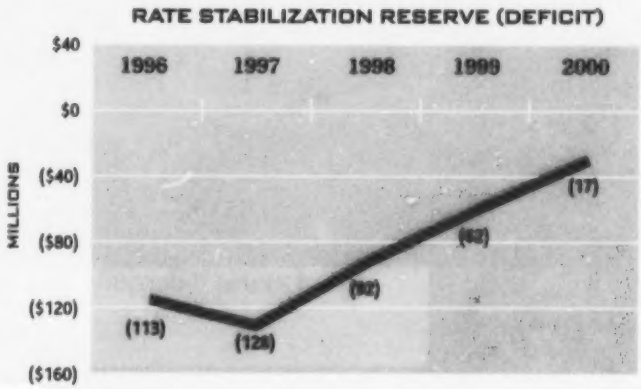
The Saskatchewan Auto Fund is the compulsory automobile insurance program administered by SGI on behalf of the people of Saskatchewan. The Fund provides vehicle registrations, driver's licences and related services to all Saskatchewan motorists. The Fund operates on a break-even basis over time, and neither receives money from nor pays annual dividends to the provincial government.

The Fund provides coverage for damage to or loss of an insured's vehicle, subject to a deductible, as well as up to $200,000 liability for property damage and/or injuries caused to another person. The Fund also provides all Saskatchewan residents with personal injury coverage under the Personal Injury Protection Plan (PIPP).

2000 OVERVIEW

The Auto Fund recorded a surplus in 2000, reducing the deficit in the Rate Stabilization Reserve (RSR) to $16.9 million. The surplus in 2000 was $45.3 million, $21.1 million higher than projected. This is primarily a result of investment earnings of $69.1 million, which were $31.3 million more than forecast. Higher than expected investment earnings were largely due to higher than anticipated gains on the sale of investments, which can vary significantly from year to year.

Claim costs exceeded the budget projection by $12.5 million, due to both higher volumes and a higher cost per claim than budgeted for damage claims. Premium taxes were also higher than budgeted due to a 1% increase in the Motor Vehicle Insurance Tax, which took effect April 1, 2000.



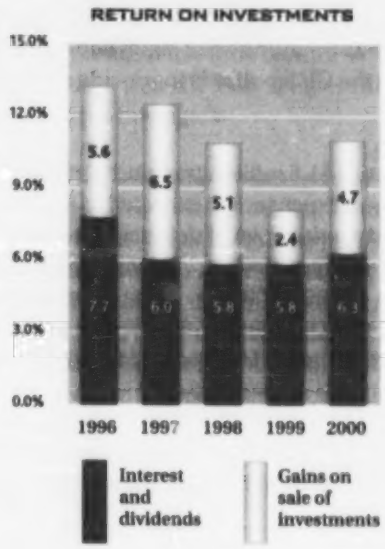
The Auto Fund implemented a 2% general rate increase in 2000. The rate increase provided additional revenue to pay for rising claim costs and assist in eliminating the deficit in the RSR.

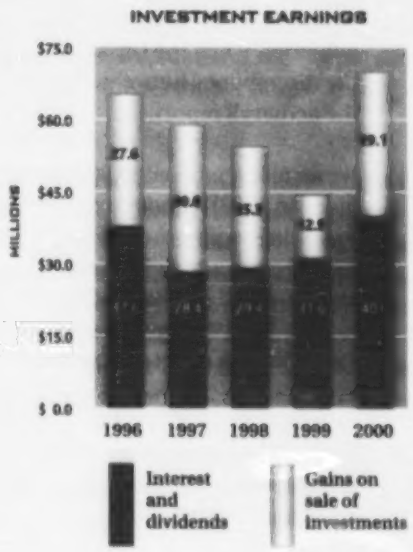
REVENUES

Premiums written increased to $446.7 million in 2000, from $427.6 million in 1999. This increase is a result of a newer vehicle population, which costs more to insure, and a 2% average general rate increase. The rate increase was the third of a three-year rate program.

The Fund holds amounts in reserve for unearned premiums and unpaid claims. These funds are invested and help reduce insurance rates for vehicle owners. Because a portion of these funds is held only for short periods, and because of the possibility of large cash outflows due to unpredictable weather, an insurance company must use a more short-term investment approach than a pension plan (which invests its funds for longer periods). As well, the Fund records the appreciation in market value of its investments only upon their sale, unlike pension plans which are required to record their investments at market value.

Investment earnings were $69.1 million in 2000. This is a 55% increase over 1999 earnings of $44.5 million. The earnings in 2000 were the highest ever recorded in the Auto Fund. The increase is a result of a significant increase in gains on the sale of investments, with the majority of the gains from equity sales.





Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term Vehicle Registration and Insurance payment option programs, as well as net income from the Salvage division.

Vehicle owners who choose the AutoPay or Short-Term payment options are charged a fee to cover administration costs and lost investment income. These fees generated $11.4 million in revenue in 2000, compared to $11.5 million in 1999. These programs have been very popular with nearly 50% of the annual premiums purchased using one of these programs.

The Fund operates a Salvage division with branches in five communities in Saskatchewan. SGI Salvage helps reduce the Auto Fund's claim costs by selling recycled automobile parts and whole vehicles from total loss claims. Net income in 2000 was $4.6 million, compared to $4.8 million in 1999.

MANAGEMENT DISCUSSION AND ANALYSIS

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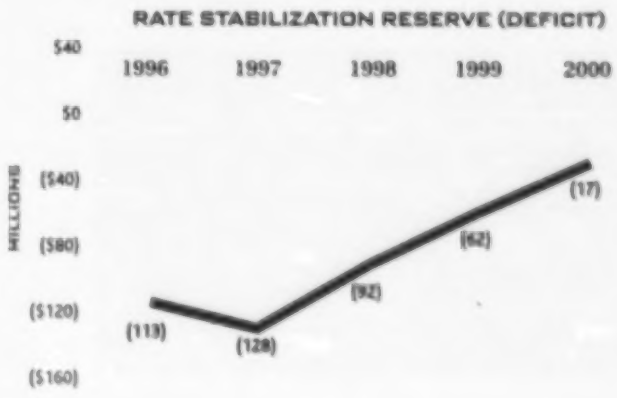
The Auto Fund recorded a surplus in 2000, reducing the deficit in the Rate Stabilization Reserve (RSR) to $16.9 million. The surplus in 2000 was $45.3 million, $21.1 million higher than projected. This is primarily a result of investment earnings of $69.1 million, which were $31.3 million more than forecast. Higher than expected investment earnings were largely due to higher than anticipated gains on the sale of investments, which can vary significantly from year to year.

Claim costs exceeded the budget projection by $12.5 million, due to both higher volumes and a higher cost per claim than budgeted for damage claims. Premium taxes were also higher than budgeted due to a 1% increase in the Motor Vehicle Insurance Tax, which took effect April 1, 2000.



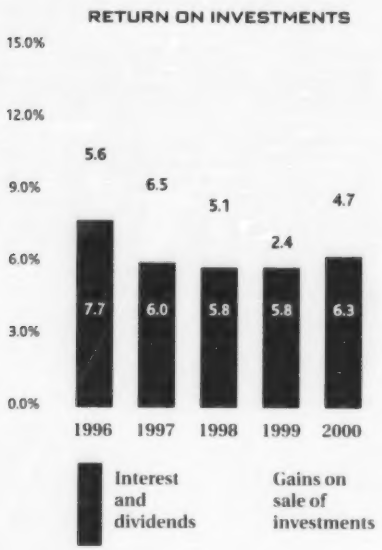
The Auto Fund implemented a 2% general rate increase in 2000. The rate increase provided additional revenue to pay for rising claim costs and assist in eliminating the deficit in the RSR.

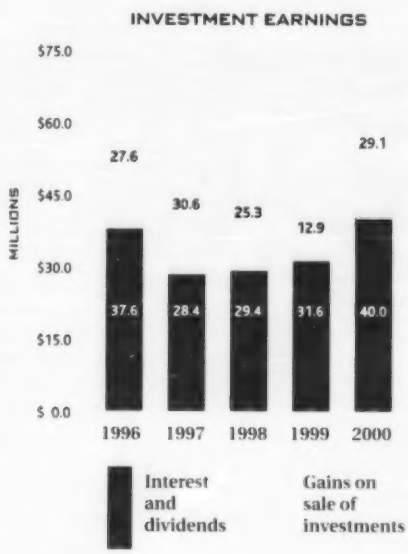
REVENUES

Premiums written increased to $446.7 million in 2000, from $427.6 million in 1999. This increase is a result of a newer vehicle population, which costs more to insure, and a 2% average general rate increase. The rate increase was the third of a three-year rate program.

The Fund holds amounts in reserve for unearned premiums and unpaid claims. These funds are invested and help reduce insurance rates for vehicle owners. Because a portion of these funds is held only for short periods, and because of the possibility of large cash outflows due to unpredictable weather, an insurance company must use a more short-term investment approach than a pension plan (which invests its funds for longer periods). As well, the Fund records the appreciation in market value of its investments only upon their sale, unlike pension plans which are required to record their investments at market value.

Investment earnings were $69.1 million in 2000. This is a 55% increase over 1999 earnings of $44.5 million. The earnings in 2000 were the highest ever recorded in the Auto Fund. The increase is a result of a significant increase in gains on the sale of investments, with the majority of the gains from equity sales.





Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term Vehicle Registration and Insurance payment option programs, as well as net income from the Salvage division.

Vehicle owners who choose the AutoPay or Short-Term payment options are charged a fee to cover administration costs and lost investment income. These fees generated $11.4 million in revenue in 2000, compared to $11.5 million in 1999. These programs have been very popular with nearly 50% of the annual premiums purchased using one of these programs.

The Fund operates a Salvage division with branches in five communities in Saskatchewan. SGI Salvage helps reduce the Auto Fund's claim costs by selling recycled automobile parts and whole vehicles from total loss claims. Net income in 2000 was $4.6 million, compared to $4.8 million in 1999.

CLAIMS AND EXPENSES

Claims incurred represent approximately 90% of the total costs of the Auto Fund. In 2000, claim costs were $409.9 million, a $25.6 million (6.6%) increase over 1999. The increase was primarily from damage claims which increased by $21.5 million over 1999 due to a 9% increase in the volume of claims. The volume of damage claims fluctuates each year based on factors such as winter driving conditions, summer storms and economic factors. Injury claim costs for out-of-province claims also contributed to the increase in claim costs, growing by $3.7 million (18.1%). These costs are generally based on tort systems from other jurisdictions and grow at a rate much higher than inflation. Costs for PIPP were virtually the same as 1999.

The Corporation establishes provisions for unpaid claims as they are reported. After they are established, as more information becomes available about the claim, the provision is adjusted. With the assistance of an external actuary, a provision is also established for future development on reported claims and claims that have not yet been reported.

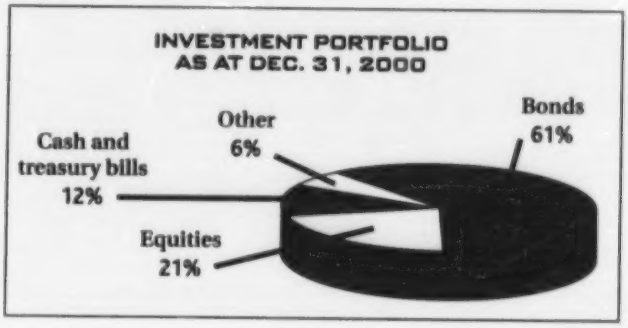
Insurance regulators and the Canadian Institute of Actuaries (CIA) have different standards for discounting claim liabilities to recognize the time value of money. The Corporation follows the standard of insurance regulators and only allows discounting of certain claim liabilities, while the CIA's standard requires discounting of all claim liabilities. Because of the discrepancy between the two methods the CIA's policy is to provide a qualification in the actuary's report.

Issuer fees increased in 2000 primarily due to a $1.6 million premium deficiency adjustment made in 1999. If anticipated future claims and expenses are expected to exceed unearned premiums, a premium deficiency exists and a writedown of deferred expenses is required. In 1997, a premium deficiency of $2.1 million was recorded, which increased issuer fee expenses and decreased deferred expenses. In 1998, $500,000 of the premium deficiency recorded in 1997 was reversed, and in 1999 the remaining $1.6 million was reversed. Excluding the effect of the adjustments in 1999, issuer fees increased by $166,000.

Premium taxes of $19.2 million increased by $2.6 million in 2000. On April 1, 2000 the Motor Vehicle Insurance Tax increased from 4 to 5%, which accounts for the majority of this increase. Administrative expenses, which account for just over 5% of total expenses, decreased by $905,000 in 2000 or 3.4% over 1999.

LIQUIDITY

The Fund purchases reinsurance to protect against major catastrophes adversely affecting the RSR. While the Fund is currently in a deficit position, given the size and conservative nature of the investment portfolio, combined with the long-term nature of a portion of its claim liabilities, it is confident that it can meet all liabilities as they become due.



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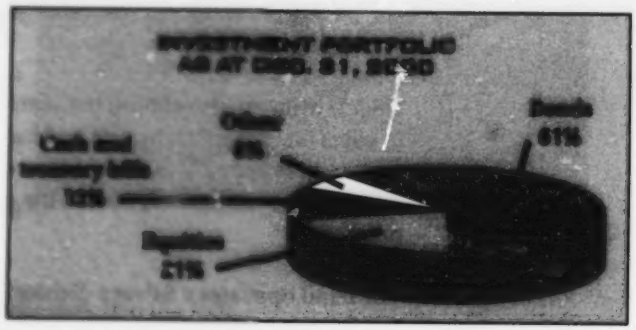


RISK MANAGEMENT

Catastrophe exposure
The Fund is exposed to losses arising from catastrophic events. With the Fund insuring all vehicles in the province it is susceptible to large losses from major storms in Saskatchewan. To contain this risk it purchases catastrophe reinsurance protection, which reduces the potential impact from major losses as a result of catastrophic events.

Provision for unpaid claims
The Fund maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported. These provisions are estimates and the ultimate payment on these claims will differ somewhat from the estimate. The Fund faces the risk that the ultimate payment on these claims will be materially different than the established provision.

Investment returns
Investment earnings are used to reduce rates for vehicle owners in Saskatchewan. In 2000, investment earnings represented 13% of total revenues for the Auto Fund. These earnings can fluctuate significantly from year to year based on returns from capital markets which the Corporation has little control over. To mitigate these fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of three investment managers.

Each of the investment managers follows guidelines established in the Investment Policy and Objectives which provides the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for each fund manager are reviewed annually by management and approved by the Board of Directors. Fund managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Finance and Investment Committee. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

OUTLOOK

Claim costs are expected to increase in 2001, and investment earnings will likely be lower than the record level they reached in 2000. Therefore, the Auto Fund's surplus for 2001 is expected to be lower than it was in 2000.

Saskatchewan Auto Fund submitted to the Saskatchewan Rate Review Panel a request for a 2% average general rate increase effective Jan. 1, 2001. The proposal included a request to rebalance rates to improve equity among risk groups. The average general rate increase was not approved. Rate rebalancing was approved, with some modifications.

PIPP was reviewed by an independent panel in 2000. A comprehensive report on the program was completed which includes over 100 recommendations to improve the program. It is expected that most of these improvements will be implemented in 2001. These improvements will have an impact on injury claim costs.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

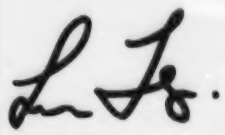
The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

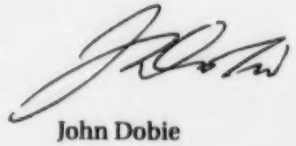
An actuary has been appointed by the Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Fund and the nature of the insurance policies. The actuary also makes use of management information provided by the Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Fund. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Larry Fogg
President
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund



John Dobie
Vice President
Finance and Administration
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

February 12, 2001

ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of Saskatchewan Auto Fund for its statement of financial position at December 31, 2000 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Common insurance regulatory practice requires that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that practice. The provision for unpaid claims carried by the company on the statement of financial position is $586,848,000 (1999 - $525,250,000). The provision for unpaid claims according to accepted actuarial practice is $584,676,000 (1999 - $521,601,000).

In my opinion, except as noted in the previous paragraph with respect to 1999, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

James K. Christie
Fellow, Canadian Institute of Actuaries

February 12, 2001

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2000 and the statements of operations and Rate Stabilization Reserve (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 12, 2001

STATEMENT OF FINANCIAL POSITION

December 31	2000	1999
	(thousands of $)	
Assets		
Cash and treasury bills (note 3)	$ 80,091	$ 66,160
Accounts receivable (note 4)	68,789	54,073
Deferred policy acquisition costs	12,018	9,671
Prepaid expenses and inventories	3,856	3,806
Investments (note 5)	592,512	500,133
Net investment in capital leases (note 6)	6,659	7,077
Capital assets (note 7)	31,450	30,498
	$795,375	$671,418
Liabilities		
Accounts payable and accrued charges	$ 15,178	$ 13,457
Premium taxes payable	21,424	17,162
Provision for unpaid claims (note 8)	586,848	525,250
Unearned premiums	188,796	177,683
	812,246	733,552
Rate Stabilization Reserve (deficit)	**(16,871)**	(62,134)
	$795,375	$671,418

Commitments (note 13)

(see accompanying notes)

STATEMENT OF OPERATIONS AND RATE STABILIZATION RESERVE (DEFICIT)

year ended December 31	2000	1999
	(thousands of $)	
Premiums written	$446,714	$427,551
Premiums earned	$435,842	$413,852
Claims incurred	409,876	384,324
Issuer fees	13,327	11,561
Premium taxes	19,195	16,611
Administrative expenses	25,831	26,736
Traffic safety programs	7,404	5,927
Total claims and expenses	475,633	445,159
Underwriting loss	**(39,791)**	(31,307)
Investment earnings (note 9)	69,056	44,543
Other income (note 10)	15,998	16,252
Increase to Rate Stabilization Reserve (deficit)	**45,263**	29,488
Rate Stabilization Reserve (deficit), beginning of year	(62,134)	(91,622)
Rate Stabilization Reserve (deficit), end of year	**$ (16,871)**	$ (62,134)

(see accompanying notes)

STATEMENT OF CASH FLOWS

year ended December 31	2000	1999
	(thousands of $)	
Cash provided by (used for) operating activities		
Net increase to Rate Stabilization Reserve (deficit)	$ 45,263	$ 29,488
Non-cash items:		
Amortization	4,983	5,738
Realized gain on disposal of investments and capital assets	(31,745)	(14,090)
Income from equity investment	99	25
Investment write downs	2,641	1,203
Change in non-cash operating items:		
Accounts receivable	(14,716)	(17,736)
Deferred policy acquisition costs	(2,347)	(2,306)
Prepaid expenses and inventories	(50)	(622)
Accounts payable and accrued charges	1,721	(7,279)
Premium taxes payable	4,262	938
Provision for unpaid claims	61,598	32,218
Unearned premiums	11,113	14,233
	82,822	41,810
Cash provided by (used for) investing activities		
Purchases of investments	(608,674)	(628,336)
Proceeds on sale of investments	555,811	596,259
Repayment of capital leases	418	378
Purchases of capital assets	(5,546)	(6,950)
Proceeds on disposal of capital assets	27	56
	(57,964)	(38,593)
Increase in cash and cash equivalents	**24,858**	3,217
Cash and cash equivalents:		
Balance, beginning of year	32,083	28,866
Balance, end of year	**56,941**	32,083
Plus treasury bills greater than 91 days to maturity from acquisition date	23,150	34,077
Cash and treasury bills per statement of financial position	$ 80,091	$ 66,160

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2000

1. STATUS OF THE FUND

The Saskatchewan Auto Fund (the Fund) was established effective Jan. 1, 1984 by an amendment to the *Automobile Accident Insurance Act* (Chapter A-35, Revised Statutes of Saskatchewan, 1978).

The Rate Stabilization Reserve (deficit) is held on behalf of Saskatchewan's motoring public and is not used for the payment of general dividends.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, shares, pooled funds and real estate are valued at cost. Investments are written down when there is a decline in value that is other than temporary. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of settlement.

The Fund owns a 20% interest in SGI CANADA Insurance Services Ltd. (SCISL), a company formed to sell insurance products in provinces other than Saskatchewan. The investment in SCISL is recorded on the equity basis, whereby the carrying value of the investment is adjusted by the Fund's share of SCISL's earnings or losses and reduced by cash received.

The Fund has a one-third interest in a real estate joint venture, which is accounted for using proportionate consolidation. The resulting income producing property is amortized over its estimated useful life of 50 years on a sinking fund basis. The other interests in this joint venture are SaskPen and a private sector investor. SaskPen is a real estate corporation owned by Province of Saskatchewan employee pension plans.

Capital leases
Investment earnings related to direct financing leases are recognized in a manner that produces a constant rate of return on the investment in each lease. The net investment in leases is composed of net minimum lease payments less unearned finance income.

Capital assets
Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Buildings	2½ – 5%
Computer hardware, system costs and other equipment	20 – 50%

Provision for unpaid claims
The provision for unpaid claims represents an estimate of the total cost of claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums
Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign currency translation
Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year-end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents
Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

3. CASH AND TREASURY BILLS

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 6.1% (1999 – 5.1%) and an average remaining term to maturity of 82 days (1999- 103 days). The Fund's investment policy states that securities investments must meet minimum investment standards of R-1, or R-2 high for Canadian grain companies, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the short-term portfolio.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2000	1999
Financed premiums receivable	$50,953	$37,613
Licence issuers receivable	5,333	4,071
Accrued investment income	4,781	3,332
Amount recoverable on paid claims	3,154	2,804
Other	4,568	6,253
Total accounts receivable	$68,789	$54,073

5. INVESTMENTS

The carrying value and fair value of the Fund's investments are as follows:

	(thousands of $)			
	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$292,752	$299,890	$270,033	$264,421
Pooled bond fund	123,093	125,104	105,893	105,873
Common shares	112,906	145,566	74,767	118,333
Pooled equity fund	27,855	29,289	24,922	38,408
Mortgages	23,977	24,318	12,425	12,531
Income producing property	10,428	11,500	10,493	11,500
	591,011	$635,667	498,533	$551,066
Investment in SGI CANADA Insurance Services Ltd.	1,501		1,600	
Total investments	$592,512		$500,133	

The income producing property consists of land and buildings with costs of $1,451,000 (1999 – $1,451,000) and $9,446,000 (1999 – $9,446,000) respectively and accumulated amortization of $469,000 (1999 – $404,000).

Details of significant terms and conditions, exposures to interest rate and credit risks on investments are as follows:

(i) Bonds and debentures:
The Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the investment assets for corporate bonds and debentures and 20% for bonds and debentures issued by any one province. Also, a minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

(thousands of $)

	2000		1999	
Term to Maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 80,404	5.8%	$ 59,946	5.7%
After five	89,799	5.6%	116,594	5.7%
Canadian provincial & municipal:				
After one through five	14,373	5.9%	13,926	5.5%
After five	39,460	6.2%	28,186	6.1%
Canadian corporate:				
One or less	–	–	840	6.1%
After one through five	27,998	6.6%	22,936	6.2%
After five	40,718	7.0%	27,605	6.9%
Total bonds & debentures	$292,752		$270,033	

Included in bonds and debentures above are bonds denominated in United States dollars with a carrying value of $1,738,000 (1999 – $4,668,000). Principal and interest is receivable on a semi-annual basis in United States dollars. In order to minimize the risk of foreign exchange fluctuations, the Fund has hedged this risk by purchasing United States dollar forward exchange contracts.

(ii) Pooled bond fund:
The Fund owns units in a pooled bond fund that has no fixed interest rate and its returns are based on the success of the fund manager and future interest rates.

(iii) Pooled equity fund:
The Fund owns units in a pooled equity fund that has no fixed interest rate and its returns are based on the success of the fund manager.

(iv) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.7% (1999 – 1.9%).

Common shares include $22,076,000 (1999 – $15,803,000) denoted in United States dollars.

The Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Fund's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(v) Mortgages:
The mortgage portfolio consists entirely of Canadian commercial mortgages with an average effective interest rate of 7.4% (1999 – 7.5%) with an average maturity of 6.4 years (1999 – 4.2 years). Principal and interest is receivable on a monthly basis.

6. NET INVESTMENT IN CAPITAL LEASES

One of the Fund's capital leases is a 63% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring March 2011) on property in Prince Albert, Saskatchewan. The related party total minimum lease payments receivable is $10,194,000 (1999 – $11,190,000) and unearned income is $3,839,000 (1999 – $4,495,000).

Each lease transfers substantially all of the benefits and risks incident with the ownership of the property to the lessee. The Fund's total net investment in capital leases includes the following:

	(thousands of $)	
	2000	1999
Total minimum lease payments receivable ($1,106,000 per year)	$10,546	$11,652
Unearned income	(3,887)	(4,575)
Net investment in capital lease	$ 6,659	$ 7,077

The fair value of the net investment in capital leases is $7,606,000 (1999 – $8,070,000).

7. CAPITAL ASSETS

The components of the Fund's investment in capital assets, as well as the related accumulated amortization, are as follows:

	(thousands of $)			
	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 6,960	$ –	$ 6,960	$ 5,160
Buildings and improvements	29,966	11,325	18,641	18,239
Computer hardware, system costs and other equipment	26,243	20,394	5,849	7,099
Total	$63,169	$31,719	$31,450	$30,498

Amortization for the year is $4,569,000 (1999 – $4,895,000).

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the balance sheet date.

Factors used to estimate the provision include: the Fund's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Auto Fund settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Fund provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the balance sheet date total $24,452,000 (1999 – $24,438,000).

Included in the provision for unpaid claims are discounted amounts for injury accident benefits in the amount of $384,400,000 (1999 – $337,550,000). These claims have been discounted using a rate of 2.5 to 6% to take account of the time value of money and include a provision for adverse development.

Changes in the estimate for the provision for unpaid claims in 2000 and 1999 are as follows:

	(thousands of $)	
	2000	1999
Net unpaid claims – beginning of year	$525,250	$493,032
Payments made during the year relating to prior year claims	(125,708)	(139,769)
Deficiency relating to prior year estimated unpaid claims	328	2,285
Net unpaid claims for claims of prior years	399,870	355,548
Provision for claims occurring in the current year	186,978	169,702
Net unpaid claims – end of year	$586,848	$525,250

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)	
	2000	1999
Injury accident benefits	$404,210	$356,974
Injury liability	124,205	126,146
Damage	58,433	42,130
Total	$586,848	$525,250

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2000	1999
Interest and dividends	$38,398	$29,884
Realized gains on sale of investments	31,743	14,137
Income from income producing property, net of operating costs of $814,000 (1999 - $777,000)	868	998
Income from capital leases	688	727
Investment write down	(2,641)	(1,203)
Total investment earnings	$69,056	$44,543

Cash inflows from the income producing property are $1,110,000 (1999 – $1,103,000).

10. OTHER INCOME

The Fund operates a Salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. In 2000, total salvage sales were $21,582,000 (1999 – 21,445,000); gross earnings

on sales were $7,617,000 (1999 – $7,765,000); and net earnings were $4,589,000 (1999 – $4,803,000). The net earnings of the Salvage division are included in other income.

The Fund offers a Short-Term Vehicle Registration and Insurance plan which allows the motoring public to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows the motoring public to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance. Included in other income is $11,418,000 (1999 – $11,473,000) for fees charged to users of these plans.

11. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year end are as follows:

	(thousands of $)	
Category	2000	1999
Accounts receivable	$ 2,483	$ 4,361
Deferred policy acquisition costs	9,144	6,915
Investments	5,103	3,438
Accounts payable and accrued charges	516	352
Premium taxes payable	21,424	17,162
Provision for unpaid claims	2,097	2,443
Unearned premiums	2,156	2,021
Premiums written	5,261	5,016
Premiums earned	5,133	4,854
Investment earnings	41	874
Claims incurred	16,778	17,164
Premium taxes	19,195	16,611
Administrative expenses	1,796	1,907
Traffic safety programs	1,765	1,536

Saskatchewan Government Insurance (SGI) acts as administrator of the Fund. Administrative and claim adjustment expenses incurred by SGI are allocated to the Fund and SGI directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Fund were $68,155,000 (1999 – $66,920,000) and accounts payable are $2,019,000 (1999 accounts receivable – $230,000).

The Fund acts as agent for the provincial Department of Finance regarding the collection of driver and motor vehicle licence registration fees and the collection of education and

health tax on certain vehicle purchase transactions. The amounts payable at the year-end date are included in the above table. The costs to administer and collect these fees and taxes on behalf of the Department of Finance are borne by the Auto Fund.

Other related party transactions are described separately in the notes.

12. FAIR VALUES

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:
(a) cash and treasury bills
(b) accounts receivable
(c) accounts payable and accrued charges
(d) premium taxes payable

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices:
(a) bonds and debentures
(b) pooled bond fund
(c) common shares
(d) pooled equity fund

(iii) Mortgages
The fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(iv) Net investment in capital lease
The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

(v) Provision for unpaid claims
The fair value of the provision for unpaid claims has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

13. COMMITMENTS

The Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with research and rehabilitation of victims of automobile accidents. The funding to be provided over the next five years is anticipated to be $19.5 million.